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FARMERS, POLITICS, AND ACCOUNTING: THE HISTORY OF STANDARD VALUES – AN ACCOUNTING CONVENIENCE OR POLITICAL ARITHMETIC?

Abstract: This paper examines accounting in the social, political, and economic context within which it operates. Specifically, the farming sector in New Zealand provides the context for studying the history of standard-value accounting. This accounting practice emerged with the support of accountants, farmers, and the state as the tax regime in New Zealand slowly moved to an income tax for farmers from 1915. The paper examines how accounting became a practice of political arithmetic, mediating the economic power of the farmers with the rest of the tax base of New Zealand. Standard-value accounting for livestock became a device that represented the power of farmers to receive favorable tax treatment compared with other New Zealanders, while still demonstrating they carried their fair share of the country's tax burden.

INTRODUCTION

Farming is the backbone of the New Zealand economy, and as a result, influences all aspects of New Zealand life. Sir Keith Holyoake, New Zealand's prime minister from 1960 to 1972, was often quoted as saying, "if farmers are happy the country will be happy" [Gustafson, 2007, p. 314]. Agriculture was, and still is,

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essential to New Zealand's economy.[1] Consequently, the government was directly involved in agriculture decisions related to production and marketing, as well as indirectly through agriculture producer boards for the apple and pear, meat, dairy, and wool industries. Members of New Zealand's Parliament were often farmers, thus farming interests were well-represented at this level. Holyoake was the archetypical farmer-politician as was William Massey ("Farmer Bill"), New Zealand's prime minister from 1912 to 1925. Massey was heavily involved in the period when standard values for farm accounting emerged, and Holyoake was similarly involved when standard-value accounting (SVA) was being called into question as an accounting practice. This paper uses archival material to explore the interrelation between farmers, accounting, and the state in the introduction and use of SVA. In doing so, we examine the events that came together and influenced the emergence and subsequent decline of SVA in New Zealand.

Accounting is viewed as a social and institutional practice [Miller, 1994], and the literature reflects a concern for understanding the influences on accounting practice in specific settings [Potter, 2005]. We investigate the incentives, actions, and consequences associated with the choice of a particular accounting practice by tracing the history of SVA[2] in the social, political, and economic context of the agricultural industry in New Zealand. Our aim is to increase understanding of the forces that influence accounting change. SVA emerged with the support of the state, accountants, and farmers as the tax regime slowly moved to an income tax for farmers from 1915. The paper examines how SVA was not simply an accounting convenience but became a practice of political arithmetic, mediating the economic power of the farmers with the rest of the tax base of New Zealand. Farming interests influenced political processes and economic considerations, and thus, SVA for livestock became

[1] Livestock farming and related downstream products contribute to approximately 60% of New Zealand's export income. New Zealand is the world's eighth largest milk producer. The national sheep flock peaked at 70 million head in the 1980s and is now about 38.5 million. The national beef cattle herd is about 4.4 million head, and there are about 5.6 million dairy cattle. The average herd size is 351 cows. There are about 63,000 farms in New Zealand with an average size of 232 hectares: 46% sheep and beef, 18% dairy, 17% horticulture, and the rest comprise other farm types. Farms are predominantly owner-operated [Federated Farmers, 2011].

[2] SVA refers to a system for the valuation of livestock which allowed farmers to adopt a fixed value for each type of livestock and to retain that year-after-year for income-tax purposes regardless of market value fluctuations and whether the animals were capital or trading stock.

a device that represented the power of farmers to receive favorable tax treatment compared to other New Zealanders, while demonstrating they carried their fair share of the country's tax burden. "Political arithmetic" is used to highlight how SVA became a technique of socio-political management for the exercise of power under the cloak of objectivity and neutrality.

Taxation is intertwined with accounting, but there is a dearth of tax history in the accounting history literature as noted by Lamb [2003], Noguchi [2005], and Oats and Sadler [2008]. This study of SVA provides a good example of how taxation is intertwined with accounting, and how an accounting technique emerges and changes over time because it intersects with organizational, industry, and fiscal policy rationales. Standard values were used to value livestock on hand in farm accounts. The Inland Revenue Department allowed the farmer to make his own assessment (with some limitations) of the average value of each class of livestock and to use this figure from year-to-year in calculating taxable profits [Payne, 1965]. Standard values provided an element of consistency in livestock valuation, but because actual market values often differed, the tax liability could be deferred (almost indefinitely) through the use of this technique. Standard values were often 10% or less of the market value of the livestock, and it was only when stock were disposed of, that the difference between book value and market value became assessable income for tax purposes [McCrea *et al.*, 1990].

The accounting profession was effectively co-opted by the farmers to support their privileged position in the economy. This was achieved through calls for accounting to support fiscal expediency and to increase efficiency in the farming sector. Particular fringe accounting practices, such as SVA techniques, emerged alongside mainstream accounting practices, such as depreciation, to enable fiscal and political objectives to be established. The accounting profession was identified, by defining taxable income, as a rationalizing organization for the exercise of government fiscal objectives. The accounting profession not only provided the technique of SVA but also provided the vocabulary by which the political agenda of the farmers could be achieved. The accounting profession provided experts who aligned themselves with the politicians in support of farmers [Miller and O'Leary, 1994]. Farm accounting intersected with discussions of agricultural efficiency, capital/income debates, rural-bank financing, income-tax avoidance, death duties, farm subsidies, and the valuation of livestock.

The study has benefited from archives of narrative material[3] comprising letters and memoranda as well as accounting information. The paper is organized as follows. The theoretical background informs the basis of the discussion and is followed by a discussion of political influences on change. Then, the interplay of the farming environment, accounting techniques, taxation, and politics is examined. The paper ends with a conclusion.

THEORETICAL BACKGROUND

Calls have been made for accounting to be studied in the context within which it operates [Burchell *et al*., 1985; Hopwood, 1987], and Miller [1990, p. 316] noted the importance of examining the interrelations of accounting and the state to increase our understanding of accounting change. This research seeks to document the process of accounting change and the imperative or rationale for change. In particular, it examines "accounting's embeddedness in political processes." Accounting is seen in this paper as a calculative technology which intervenes, reflects, and changes the context within which it operates [Miller, 1994]. Thus, accounting becomes "an instrument of power and control rather than a value-free body of ideas and practices" [Gomes *et al*., 2008, p. 1,149]. Usually accounting is studied in the context of trading, retail, or manufacturing organizations; however, this paper examines accounting within the agricultural sector. We examine how SVA was instituted and supported by political processes and self-interested parties, and how farmers gained political support and thus exerted influence on economic policy and accounting practice. We observe "political manoeuvring" [Skaerbaek and Melander, 2004] to rationalize what was perceived as legitimate practice, effectively giving power to accounting to differentiate between different economic groups [Burns, 2000]. The political manoeuvring encompassed the dimensions of power categorized by Hardy [1996] as farmers, politicians, and associated special interest groups determined that SVA was desirable, rational, and legitimate.

There is a tendency to see accounting as being purely functional within an agricultural environment, untouched by broader debates of fiscal expediency and efficiency which infiltrated the industrial sector. This study concentrates on situating an accounting technique (standard values) within broader con-

[3] Material was sourced from the New Zealand Institute of Chartered Accountants Library, Archives New Zealand, the National Library Archives at the Turnbull Library, and the Hocken Library Collections, Archives and Manuscripts.

cerns of agriculture, fiscal, and political policy. Miller [1990, p. 316] pointed out that the construction of government policy and programs involves "processes that often call upon the calculative practices of accounting to make their objectives operable." Thus, there is a reciprocal relationship between accounting and the state, and it is through calculative technologies of government, like SVA, that the "programmatic realm of political rationalities is made operable" [Miller, 1990, p. 318]. Farmers and their institutions, such as the Farmers' Union (later Federated Farmers) and producer boards became the domain of economic life for political rationalities. The power of various political parties ebbed and waned depending on how well they mediated the rationale for rural financing, farm subsidies, or land tax as opposed to income tax, and therefore the income measurement issues involved with livestock valuation.

The accounting calculation of "profit" for farmers took on a particular significance as economic policy and political power emerged. Farmers' accounting practices become intertwined with fiscal policy. Miller [1994, p. 14] pointed out that accounting practices of profit measurement transformed farming: "profit was held to result from good management of the farming process, rather than from the diligence of individuals who tended the resources provided by God." Accounting calculation made it possible to regard farming as a production unit that had costs, revenues, and profits, and therefore could contribute to the tax revenue of the national economy. This enabled farming to be compared to any other sector of the economy and created a regime of economic calculation so that interventions and judgments could be made and government policies devised.

Miller and Rose [1990] and Higgins [2001], in outlining the way the government uses technologies such as accounting practices, drew on Foucault's [1980, pp. 131, 133] ideas of disciplinary power. "Governmentality" refers to the way technologies like accounting produce "truth-effects." Knowledge is produced and is coupled with power to produce a "regime of truth." As stated by Foucault, to produce knowledge and sustain it, you need "multiple forms of constraint." Constraint is diffused through the political apparatus of the state and the use of technologies like accounting practices. This power/knowledge framework has been used to examine accounting practices in various organizational and institutional contexts [e.g., Stewart, 1992; Carmona *et al.*, 1997; McKinlay and Pezet, 2010]. The contribution of this paper is to show how these technologies of power become intertwined with political interests. Governmentality denotes

the way the state orients the economic behavior of the electorate through subtle disciplinary mechanisms like accounting technologies. Yet, if regimes of truth are produced and sustained through constraint, then accounting knowledge provides a means to seek and exercise power. Accounting practices become weapons in exercising democratic freedoms [Volf, 1996].

The political economy of accounting emphasizes the relationship between the political and economic forces of society. The concept of political arithmetic couples the idea of governmentality with the idea that accounting is an interested activity that can be used to further the interests of particular groups in society [Cooper and Sherer, 1984]. The overt interests of farmers embedded accounting practices in a legislative agenda that was governed by political interests.

POLITICAL INFLUENCES ON CHANGE

From the mid-1800s, farmers tended to be over-represented (on a population basis) in Parliament. Of the 37 parliamentary members in 1853, 11 were farmers (30%) and by 1856, 14 were farmers (38%). According to Martin [2004], the Legislative Council was characterized as a run-holding oligarchy in 1856. The main concern of the farmer members was to ensure that the tenure of their runs was not changed. By the 1870s, the composition of the House of Parliament included professionals such as lawyers, but a strong representation of farmers continued, and in 1892, the Liberal Party announced itself as the farmers' party of the future and invited smaller run-holder farmers to join the party as "friendly farmers' advocates" [Gardner, 1970, p.11]. At the same time, the Farmers' Union claimed to be the political voice of farmers, and three candidates became members of the House of Parliament in 1902. They claimed to represent "the new, irresistible force in rural politics" [Gardner, 1970, p. 12] and were regarded as holding a strategic position in the economic system with regular access to ministers of Parliament. Grossman and Helpman [2001] and Barney and Flesher [2008] noted that effective lobby groups depend on good organization. The farmers' pressure group, Federated Farmers (Farmers' Union), obtained official recognition on boards and committees, and members often paid large sums into national party funds [Gardner, 1970].

After the national election of 1911, farmer representation increased further. Then in 1912, William Massey became prime minister. Massey placed farming first [Gardner, 1970], and there was extensive expansion of primary production during the pe-

riod of his governance from 1912 to 1925. Massey believed in having "sturdy freeholders, farming their own lands, and sending representatives of their own class to the Parliament of the country" [Martin, 2004, pp.148-149]. In this respect, Massey appointed his old allies to cabinet so that farming was the main occupational background of cabinet members. In addition, a large contingent of party members represented small farmers – "the Back Blocks cowspankers whom Mr Massey has drawn into his net by promising them the new Jerusalem." The mood of the time may be summed up in the *New Zealand Truth* [March 15, 1924] cartoon which shows the cartoonist's view on Massey's priorities for tax relief.[4] Three very fat farmers are depicted, one with a wool check in his pocket, one with a meat check, and one with a butter check. The taxman, who holds a top hat bearing the label "reduced taxation," is giving a "not for you" signal to a very small man representing the general public.

From Massey (1912-1925), there was an unbroken line of farmer leaders to 1940, and farmer members accounted for about half of the ministers in Parliament [Gardner, 1970, p. 16]. As a result, the politics of that period reflected the economic pre-eminence of farmers, and farming was considered "...as a way of life which set some New Zealanders apart from their fellows, and required special representation." There was obviously a dominance of farming interests in Parliament over this period. Martin [2004, p. 197] quoted Burdon [1935, p. 168] who expressed the opinion that the towns and cities of New Zealand viewed New Zealand as a "country governed by the farmer for the farmer." Reeves [1902, p. 253] cited in Goldsmith [2008, p. 104] stated that: "In New Zealand farmers are almost all-powerful." Le Heron [1989, p. 21] noted that farmers were "...a numerically large and politically powerful group" and identified a strong government-farmer alliance. Powerful representation in Parliament was the means by which self-serving intentions were achieved and the desires of powerful individuals exerted on others [Buchanan and Badham, 1999]. The dominance and influence of farmers was a distinctive characteristic of the New Zealand Parliament and arguably led to farmers receiving special privileges, not only tax-related, but also in terms of rural mortgages, guaranteed prices, and various subsidies.

Commodity prices declined during the Great Depression, but after the mid-1930s, they started to climb again. The first (1935) Labour government of Michael Savage had wooed farm-

[4] Goldsmith [2008 p. 150]

ers with the promise of guaranteed prices. Accountants provided a political arithmetic, a technology of state intervention, and a rationale for the farmers to pay income tax although they were allowed to shelter some of their income from taxation. There was reciprocity between the technology of SVA and the political rationalities of government programmatic initiatives [Miller, 1990].

In the 1950s, the government was increasingly concerned about efficient farm management and not simply fiscal expediency to retain the farming vote. Even the political arithmetic of standard values was raised as an issue. Standard values came under the scrutiny of government. A 1950 Memorandum to Members of Cabinet from the minister in charge of the Land and Income Tax Department [Archives NZ, 1950, MS 172/2/2] outlined the farmers' issue with using standard values as:

> the adoption has always carried with it the contingent liability for taxation on the excess of the sale price over standard value. Ever since farmers have been liable for taxation on income, this liability has continuously been brought under their notice, and the desirability of adjusting standard values to keep them in reasonable relation to average market values has been constantly stressed by the Department. In many cases, the standard values adopted in the past have not been revised in the light of increasing market values and the difference now disclosed on realisation gives rise to a substantial increase in income in the year of sale, with a corresponding increase in taxation.

The minister noted that there were relief provisions and adjustments allowed by section 17 of the *Land and Income Tax Amendment Act 1945* which gave the commissioner of taxes wide discretionary powers to effect adjustments to standard values without tax liability. The Crown Law Office had confirmed the legality of the commissioner's adjustments to further legitimize the preferential treatment given to the farmers. The minister also noted that the *Land and Income Tax Amendment Act 1949* allowed the farmer with any tax liability left after all the adjustments to spread the tax assessment over three years [Archives NZ, 1950, MS 172/2/2]. The memorandum ended with a brief consideration of the capital-stock system used in Australia and the United Kingdom, where increases in the value of the capital stock did not attract taxation, although increases in numbers of stock, which were regarded as the produce of the capital stock, were income.

The minister dismissed the capital-stock system as it would not give the farmer any tax advantage over the standard-value system, and "a capital stock system without very complete accounting records under constant supervision would lend itself to evasion and the Department's experience is that the average New Zealand farmer is averse to keeping detailed records" [Archives NZ, 1950, MS 172/2/2]. The lobbying body, Federated Farmers, pushed government to look into the capital-stock system in 1954, and the Cabinet Committee, which included Prime Minister Holyoake, decided to refer back to the conclusions of the 1950 Memorandum and, in 1956, finally decided to keep the standard-value system.

The government was increasingly concerned with farm-management issues. The pressure for efficient farm management came from the technological advances referred to and the increasingly international and competitive environment. There was also an increasing worry about the dependence on the U.K. as New Zealand's main market for its farming output. These pressures provided a shifting rationale from bookkeeping procedures, to accounting calculations like standard values, to efficient farm management. The government co-opted the New Zealand Society of Accountants (NZSA) as allies to provide legitimating expertise.

FARM ACCOUNTING, TAXATION, AND STANDARD VALUES

Farm accounting and the recommended use of standard values was first mentioned in *The Accountants' Journal* in 1925, and SVA was formally included in the *Land and Income Tax Amendment Act 1929*. At that time, farming was established as a significant part of the economy in New Zealand and was recognized as a global business in which "effective account keeping was indispensable" [New Zealand Society of Accountants, 1930, p. 123]. Individual farmers were called upon to manage their farms in terms of the "true costs and real return on capital invested" [New Zealand Society of Accountants, 1933, p. 358]. Calls for rational and efficient farm management transformed a family way of life as government intervention increased [Belshaw *et al.*, 1936]. Although these early calls for using accounting for farm-management purposes were made, they were largely hijacked by the tax minimization and avoidance imperative. Smith [1977, p. 21] addressed management-accounting issues for farmers and rued the fact that tax accounting was overemphasized. He noted that tax-based stock valuations resulted in an "unsatisfactory measure of farm profit."

It was not until the 1960s and 1970s that farm efficiency rationales became a regular part of the discourse from the government and the NZSA. This enhanced the profile of accountants and increased their professional boundaries as the stock and station agent's influence with the farmer subsided [Abbott, 1988]. This also coincided with the disappearance of standard values. We examine the emergence and subsequent fall of SVA through three events: (1) pre-standard-value farm accounting, (2) a period of change followed by stabilization, and (3) the fall of SVA (summarized in Table 1).

TABLE 1

Key Developments in Livestock Valuation

Pre-Standard Value	***Period of Change***	***Period of Stabilization***	***Fall of SV Accounting***
No Income Tax on farming income Livestock at purchase price Minimal farming records	1915-23 Income tax on farming income 1923 Income tax on farming income abolished 1929-1939 Income tax progressively replaced land tax 1921 Standard Values introduced unofficially Farming records for tax purposes	Standard Values legislated in Land and Income Tax Amendment Act 1929 1939 all farming income liable to income tax Inflation makes SVs unrealistic	1987 SV accounting replaced with herd scheme and trading stock scheme

Pre-Standard Value Farm Accounting: The income-tax-free economic environment in which farmers operated in the early 1900s resulted in farmers keeping minimal accounting records. Details of livestock purchased were often entered as diary notes, and only a few farmers kept more formal livestock registers. Malloch [1933, p. 25] reported that there were 86,000 holdings in New Zealand and about 40,000 of those did not keep proper accounts, based on the concept that "a good farmer knows how he has done without needing books to tell him." Those farmers who did keep accounts used simple methods. In respect of dairy farming, cows were recorded by name and at purchase price as shown in the following example:

TABLE 2
Livestock Register
Class of Stock – Calves

Date	*No.*	*Particulars*	*Purchase*	*Date*	*No.*	*Disposed*	*Amount*	*Remarks*
			£ s d				£ s d	
April 1	16	Stock	60.0.0	April 4	2	Bull calves	7.2.0	Dolly's
	1	Bull calf "Dolly"				Bull calves	7.1.6	Queen's
	1	Bull calf "Daisy"						
	1	Heifer calf "June"						
	1	Heifer calf "Queenie"						

Source: Spicer and Pegler [1925, p. 34]

Farmers (and their children) must have enjoyed selecting names for their cows. An archival record shows names such as: Darkie, Red, Yvonne, Doris Dainty, Annie Lucky, Tulip, Bones, Alma, Violet, Blackbird, Bella, Ruby, Bud, Peggy, Matilda, Topsy, Katey, Dorcas, Squirt, Myrtle, Jolly, Buster, Jewel, Una, Fanny, Nan, Hilda, Ethel, and Beauty [Paynter Family Farm, National Library Archives, MSX-4467]. Eventually, such specific identities were not recorded, and the focus was on standard value rather than purchase price. Queenie, Daisy, and Blackbird gave way to "livestock" at a standard value. This became paradigmatic of the way the government used accounting as a transformative technology to intervene on the family farm.

Although more detailed records may have been useful for management purposes, they were not officially required because while farmers paid land tax, they were not subject to the payment of income tax on farming income until 1915-1923 (commencing during World War I). The land tax was based on government valuations [Rodwell, 1936]. Malloch [1933] commented that some farmers had the idea that they could beat the Inland Revenue Department by not keeping any records so that very little, if any, tax would be payable. Massey [quoted in Goldsmith, 2008, p. 151], prime minister and farmer, stated that:

> farmers are not accountants, and few of them do much in the way of bookkeeping. The farmer looks to his bank pass-book and to his cheque-book, and he also has his accounts with the stock and station agents with

> whom he does business. From these sources he generally manages to form a fairly accurate idea of what his financial position is. The matter, however, is very different when it becomes necessary for him to send his return to the Land and Income Tax Department: he is then in trouble at once, because the furnishing of the return requires aknowledge of the Act, which is somewhat technical.

Massey's quote points to farmers' ambivalence to record keeping and accountants. Farmers are essentially in a commodity business, and as long as they can finance land and capital expenditures, their revenue streams and cost structures are fairly well defined.

The aversion to paying income taxes came from the inquisitorial nature of income taxes. Many farmers wondered why their private affairs should be picked over by a government bureaucrat [Goldsmith, 2008, p. 66]. Preston [1989] raised the same issue in his paper on the interrelationship between accounting and the taxing authorities by including in the title "the taxman cometh." The use of calculative practices such as tax accounting created a regime of truth that brought the affairs of farmers into the light and colonized their way of life [Foucault, 1977]. Eventually such political interference disrupted and disturbed their social and economic reality.

Period of Change: When the first land tax was introduced in 1878, there was a feeling that farmers were supporting the urban investor or what one MP called the "moneyed class" [Goldsmith, 2008, p. 63]. The *Land and Income Assessment Act, 1891* introduced a progressive land tax on the unimproved value of land. The graduation levels were later changed *[Land and Income Assessment Act, 1907]* to a flat rate of a penny in the pound of unimproved value plus an additional graduated tax. The 1891 act also introduced an income tax from which farmers were exempted. The land tax was "hated and feared by the great landowners" [Rodwell, 1936, p. 215] even though it was less severe than urban taxation which combined progressive land tax with progressive income tax. The battle about whether farmers should be relieved or held liable for income tax raged between 1915 and 1935, and an urban/rural split in politics emerged.

With the outbreak of war, there were increased demands for farmers to share the tax burden, and the idea of a "conscription of wealth" was talked about by some MPs in order to show solidarity with the soldiers' sacrifice. Farmers had to be part of

the sacrifice. From 1915-1923, farmers paid income tax in addition to the graduated land tax to help finance World War I. There was now an incentive for farmers to keep better records and to collude with accountants to invent and employ accounting devices to reduce taxable income. Parliament commissioned and received a report in 1916 of the amount of income tax paid by farmers under the *Finance Act, 1915*. £249,048 was collected from the new income tax imposed on farmers [Appendices to the Journals of the House of Representatives, 1916, p. 3]. This amount was for two years of income tax (the new law was retroactive) and represented less than 3% of the total tax collection for the period. Exemptions granted to farmers were so generous as to make taxation for most farmers a negligible matter [Rodwell, 1936]. James Ward, the minister of finance, pointed out that the majority of farmers were paying less tax than businessmen paid on similar incomes in town [Goldsmith, 2008].

World War I altered the incidence of taxation permanently in New Zealand. The income tax became a significant component of the country's tax revenue. Twenty per cent of tax revenues came from income taxes compared to around 8% before the war, and income taxes were to become a higher proportion over the next 15 years [Goldsmith, 2008]. The 1920s were a time of debate about how the tax burden should be shared in society. There was the financial legacy of the war and infrastructure investments in roads, rail, telegraph, power stations, schools, and hospitals to be made. Company income tax remained at the high levels of the war. However, at the end of 1923, income tax in respect of income from farming activities was abolished. Massey argued that the tax on farmers was a war tax which was never intended to be permanent. This privileged position remained until 1929. Massey set up a commission to examine taxes in 1924. The Royal Commission recommended that the land tax be abandoned for a graduated income tax, and that company taxation should be reduced [Appendices to the Journals of the House of Representatives, 1924, p. 3]. The accounting profession became involved, and the NZSA provided W.D. Hunt as one of the commissioners. Hearings were held throughout the country. The majority of the submissions were from farmers and accountants. Massey did not act on the commission's recommendations and wanted further study of their ramifications. The farmers were supportive of the status quo of paying no income tax and the resulting lack of government involvement in farming business. However, the higher taxes on companies' income discouraged the development of industry and left the country's living

standards hostage to the fortunes of commodity prices. Massey's party was well-supported by farmers in the 1925 elections [Martin, 2004].

This was the pinnacle of power for the farmer politician. The argument for the farmer to be relieved of paying income tax was weak when compared to other sectors of the economy. The argument that farmers needed more money in their pockets to make improvements and employ workers could be applied to companies as well [Goldsmith, 2008]. Yet, companies, as mentioned, continued to pay income tax after the war. Income tax for farmers was reintroduced in 1929 as a substitute for land tax and was initially imposed on large farms (unimproved value of land over £14,000, 1928-1929) and progressively for other farmers (unimproved value of land £7,500 or over, 1929-1931, and unimproved value of land £3,000 or over, 1931-1939). Eventually, all farming operations were liable for income tax (from April 1, 1939). The exemptions granted to farmers were generous, and Rodwell [1936] commented that the amount of direct taxation paid by farmers in the period as a whole from 1924-1929 was about half what it would have been if they had paid tax at the same rate as the rest of the New Zealand workers.

The imposition of income tax led to the need for more sophisticated record keeping and resulted in farmers seeking ways to minimize their tax liability. In particular, the introduction of income tax raised the question of valuation of livestock on hand as this affected the calculated profit of farming entities and therefore the taxation payments for the year. Russell [2004, p. 10] listed a number of complicating factors:

- Market values fluctuate significantly from year-to-year;
- cost is difficult to calculate;
- livestock is a self-replacing asset;
- livestock is both a self-sustaining capital asset and a tradable produce;
- livestock may be held on capital account (like a machine) for the production of tradable commodities such as wool or for the production of progeny for meat; and
- some farming systems involve buying in young stock (semi-manufactured goods) and growing them through to maturity (further processing) before they are sold as finished goods.

Traditionally, the rule of "the lower of cost or net market

value" was applied, but some farmers considered this inappropriate for valuing livestock which have multiple purposes; e.g., in the case of sheep, wool is produced, lambs are produced, some of the stock is killed, some fattened and sold, and some die. Market values for both sheep and cattle reflect seasonal and overseas conditions and have the effect of increasing reported profits (the higher the value of stock on hand, the higher the calculated profit). Conversely, when market values are low, already low profits will be further decreased. The perceived problem of increased profits due to high market values could be overcome by the use of cost as the basis for stock valuation. However, Russell [2004] noted that this would reflect only the initial cost and does not take into account the increase in value of the wool or the meat. Fippard [1948, p. 38] provides the following example:

> In 1930 a farmer purchased land and stocked it with 5-year breeding ewes costing on average 18s 6d per head. The effect of the slump of 1931 was accentuated in his district by a severe earthquake which disrupted killing facilities, and by a very serious drought. The survivors of some lines were sold on the market for only 6s per head. Had this extremely low market value been placed on the remainder of the stock, the loss for the year ended June 30, 1931 would have been greatly increased. Market values showed a partial recovery in 1932, and a steady improvement over the next four years until in 1937 market values were higher than in 1930. Under the market-value system, this market recovery would have been reflected in the profit results of the years 1932 to 1937 and the last year's results, a boom year for farming, would have been further improved.

These sorts of fluctuations in stock value are not unique to the farming industry, but the farming community generally was unhappy with the situation, and sought to effect a change in the methodology for calculating the value of livestock on hand. Farmers, from a position of political power, effected the introduction of SVA which had both social and economic repercussions.

Period of Stabilization: In *The Accountants' Journal* [1925, p. 1], it was noted that "standard values came to be fairly generally adopted during the time that profits from farming transactions were subject to income tax." The standard-value system "allowed farmers to adopt a fixed value for each type and class of livestock and to retain that fixed value year-after-year regardless

of market value fluctuations, whether the animals were capital or trading stock, whether the stock was held short term for fattening or long term for the production of wool or milk, or for the production of progeny to be used for herd or flock replacement" [Russell, 2004, p. 11] Once adopted, standard values were used for as long as the farmer continued to farm and could in fact be passed on to the next generation.

Standard values emerged as a tax-avoidance device soon after 1915. Tax returns of 1915 for the Preston family farm in Waikouaite showed sheep without specifying whether a standard value per head existed. In 1921, tax form 3, part D was more directional and stated "adopt a standard value per head for each class of livestock and adhere to that value per head in subsequent returns." In 1923, the instructions to the farmer were more explicit, prefacing the explanation with "It is advisable in the case of a continuing business to adopt...." The Preston farm did just that: £1 for sheep, £3 for cattle, £10 for horses. Significantly, the same standard values were used in the 1948 income tax return [Preston Family Papers, MS-1271-031, MS-1272-035, MS-1272-036, Hocken Collections, Archives and Manuscripts]. It was appropriate that farmers were paying income taxes to help with the war effort, but accountants were allowed to invent standard values to dampen income and avoid paying too much tax. This was done with the institutional approval of the tax authorities who officially sanctioned the accounting device through the published tax forms.

As the primacy of farm politics was drawing to a close [Gardner, 1970, p. 13], and as more and more farmers became liable for income tax, the farmers ensured that the tax avoidance possible through the use of standard values for livestock was legislatively solidified in the *Land and Income Tax Amendment Act, 1929*. As proposed by Joseph Ward, prime minister representing the United Party, standard values were written into Section 13 of the 1929 Act. Ward came into power in 1928 by criticizing what his urban supporters called "farmer-socialism," and he decided that farmers had not borne their fair share of taxation in recent years. Goldsmith [2008, p. 160] stated: "politics in the 1920s was essentially a game of pass the parcel between commercial and rural elites. Massey in 1923 had relieved big farmers, leaving more for urban commercial elites to carry; Ward had got them [farmers] again in 1929, taking pressure off his urban supporters." The 1929 Act was debated at length although there was little change through its three readings in Parliament. Standard values for livestock, as an accounting

method for reducing income, were officially sanctioned by the Act. It was a case of the farmers giving into an income tax, on one hand, yet taking away with the other by putting some parameters on how income was measured.

Although standard values adopted in the 1930s supposedly represented, more or less, the market conditions at that time, they became progressively more unrealistic as inflation altered true market values. Spicer and Pegler [1925, p. 105] provided an example:

> Assuming that it costs £30 to rear a cow until the date it is brought into the milking herd this figure becomes the standard figure and is increased over the next three years by £5 per annum and over the next four years decreased by £5 per annum leaving the value at £25 when it is drafted out of the herd. This system does not show the true value in the Balance Sheet at a particular date but provides a fixed standard. There is an implied intention of understating livestock values (and profits).

Due to inflation, the initial standard value represented less and less of the true value, resulting in a large discrepancy between the true profit and the profit that was returned for taxation purposes [Watson, 1968]. Minimum standard values were set by the Inland Revenue Department and were increased infrequently and on an ad hoc basis. King [1995, p. 135] provided the following example of how standard values increasingly failed to reflect market value:

TABLE 3
Standard Values versus Market Values

	Standard Value 1985-86 $	*Market Value 1985-86 $*
Sheep (Ewes)	2-6	8-20
Rising one year beef cattle (Steers)	40	250
Rising two year beef cattle (Steers)	70	600
Rising one year red deer (Hinds)	150	1,000
Rising two year red Deer (Hinds)	200	1,400

Source: King [1995, p. 135]

Due to the difference between standard value and market value, farmers were "literally too scared to die or retire from

farming" [Russell, 2004, p. 12]. Two hundred dairy cows held at standard values of $70 per head meant a total tax book value of $14,000. If sold for $400 per head ($80,000), the $66,000 difference was taxable income. The tax cost of quitting was very large [Russell, 2004]. When farms were sold, the livestock was considered inventory and subject to tax. There was no tax exemption for capital gains.

The Accountants' Journal in 1930 outlined the tax department's view of avoiding tax through artificial stock values for businesses: "the department has always set its face against a process of juggling of stock values for the purpose of equalizing dividends and establishing secret reserves and – most important of all – evasion of income tax. Profits must be assessed as made and no portion carried forward into the subsequent year per medium of the convenient channels of stock in trade" [New Zealand Society of Accountants, 1930, p. 225]. It is remarkable that, given this view of the tax department, the SVA technique was legislatively sanctioned by the state.

Non-farming entities did not have the tax advantages that the use of standard values gave to farmers. The difference between the purchase cost and the standard value of livestock was a tax-deductible expense. With a 66% tax rate, the write down effectively meant that little more than one-third of the purchase cost needed to be met by the farmer. The remainder (66%) was met by tax savings, at the expense of other taxpayers in the country [Russell, 2004]. In addition to the tax benefits on an annual basis, Section 14 of the *Land and Income Tax Amendment Act, 1940* gave the commissioner of taxes discretionary power to grant relief when the farmer sold all, or substantially all, of his livestock at values in excess of standard values. The relief was limited to the writing up of the value of the livestock owned at April 1, 1928, April 1, 1929, and April 1, 1931 to the true value at that time or 19s per head for sheep and £5 for cattle, whichever was the lesser [Fippard, 1948]. An increase in the value of stock would more correctly be taxed in equal increments over the years rather than in a lump sum when the farm was sold [Watson, 1968].

The following examples from an actual case [Toomath, 1973, p. 11] highlight the tax advantages that farmers had.

TABLE 4
True Income versus Taxable Income

Year	*True Income* $	*Change from Previous Year* $	*Taxable Income* $	*Change from Previous Year* $	*Change Difference True Income vs. Taxable Income* $
19X7	-1,452		3,638		
19X8	3,905	+5,357	6,416	+2,778	-2,579
19X9	8,296	+4,391	4,386	-2,030	-6,421
19X0	11,231	+2,935	6,152	+1,766	+1,169
19X1	13,153	+1,922	6,431	+279	+1,643

Source: Toomath [1973, p.11]

The true income figure is calculated using livestock values that could be expected to be realized at a normal sale at the end of the season, which would usually coincide with balance date (i.e., market value). The table shows that the use of standard values (taxable income) reduced the magnitude of the movement in income each year and, in one case, reversed the direction (e.g., in 19X7-19X8, true income increased by $5,357 when stock on hand was valued at market value, but when stock on hand was valued using standard values (tax-based), taxable income increased by only $2,778. The difference between the two figures is $2,579. In 19X8-X9, the difference between the movement in true income and taxable income was $6,421. Toomath [1973, pp. 6-7] argued that: "No good case can be made in favour of using a livestock valuation which purports to be an 'average' or stable price for livestock. Rather than seek some means of smoothing out the effects of fluctuations in livestock values on income, it is much more informative if the accounts reflect current trends." Therefore,

> "…The use of nil or standard values for livestock on hand produces totally meaningless gross profits in management terms." As a result, "only in exceptional cases are the financial records of our farming friends based on sound commercial lines" [New Zealand Society of Accountants, 1937, p. 358].

Despite some early comments on the inadequacy of accounting for farm management, accountants were focused on providing advice on tax avoidance for the farmer and the fiscal expediency of SVA. Standard values and sheltering income ruled the day as all farmers' income, down to the smallest of farms, came under income taxation. In fact, farmers wanted all the

benefits of standard values but none of the downside. When livestock values in the early 1930s dipped below previously selected standard values, the lower market value was used for stock on hand. Consequently, the commissioner of taxes complained that "dairy farm income has been greatly reduced by lowering the value of the herd at the end of the season without any note of this fact in the returns." The commissioner noted that his approval was needed to write down a previously selected standard value [New Zealand Society of Accountants, 1932, p. 210]. As livestock values increased in the 1940s, 1950s, and 1960s, farmers lobbied the government for relief from the sudden imposition of high taxation when they were faced with the significantly higher market livestock prices on selling their farms and/or herds.

Accountants even started to provide theoretical justification for SVA as an income-sheltering device by suggesting that it was a way to recognize and reconcile the dual nature of livestock. Haisman [1955, pp. 3, 14, 16], vice chairman of the Accounting Practice and Procedure Committee of the NZSA, identified livestock as having a dual identity as a capital asset and as trading stock. Haisman stated that "all existing accounting systems, with the exception of the Standard Value System operating in New Zealand, are based on the concept that the breeding stock is capital stock and the remainder trading stock, or else on the concept that the whole of the stock is trading stock." He identified the theoretical ingenuity of standard values:

> the Standard Value system is itself a departure from accepted accounting procedure and it has been but dimly perceived by some farm accountants that it has characteristics as much akin to a capital stock as to a trading stock system. It has not been recognised, however, that fundamentally it produced results in a dual way. It is therefore proper to say that the Dual (capital and trading stock) Account System is an expansion of the Standard Value System into the full stature of its inherent duality.

In making this theoretical justification for SVA, it is interesting to note Haisman's [1955, p. 4] view of accounting and the professional accountant. It is a view that is amenable to developing accounting expertise and technologies to be co-opted by the state:

> The question is: Is the professional accountant to merely be a recording angel, and accountancy a dead

> and fixed system to assist business within the stone walls which it calls principles, or is he to be a scientist engaged in the development of a living and ever developing system designed to cope with the ever changing situations which the development of modern business and taxation systems present to the businessman?"

He defined accounting as "…an instrument of public policy and private management. It is adaptable to any purpose and any condition." Accountants provided accounting technologies to enable an interpenetration of public policy and private management [Miller and Rose, 1990]. This occurred despite the contested nature of the conceptualization of accounting for tax in general and standard-value livestock accounting in particular [Nurnberg, 2009].

Farmers sought support for change through their strong representation in Parliament and through influential bodies such as the NZSA. Thus, a particular accounting was embedded in the political process.

Fall of SVA: The 1940s and 1950s brought further technological efficiencies to farmers. Exotic grasses replaced native grasses, fertilizers enabled intensive land use, and aerial top dressing improved farming in the hill country. These built on the technological developments of refrigeration, electricity, milking-shed technologies, and herd quality and maintenance methods. SVA was abandoned in 1987 and replaced with the herd scheme and the trading-stock scheme. Under the herd scheme, livestock were revalued annually to national-average market values. The herd scheme applied to animals held primarily for the production of progeny, wool, milk, velvet, or fiber. Stock was treated as capital (rather than inventory) and was revalued annually to national-average market values. Under the trading-stock scheme, livestock were valued at 70% of a three-year moving average based on national-average market values. Changes in stock numbers and changes in market value between beginning and end of an income year affected taxable income [McCrea *et al*., 1990]. The trading-stock scheme was abandoned in 1993 for a national standard-cost system. Farmers can now use market values or replacement costs, national standard costs, or the herd scheme.

Accountants were called upon to provide a rationale for efficient farm management. The technology of market-value accounting (MVA) became the new political arithmetic of government. Just as SVA did from 1920 to 1987, MVA now played a "central role in the elaboration and operationalization of spe-

cific state projects enabling these to be translated into attempts to intervene" [Miller, 1990, p. 333] and to manage and control agriculture in New Zealand in the name of efficiency.

POLITICS, ACCOUNTING, AND ACCOUNTANTS

The NZSA had a research interest in farming and farm-accounting techniques. Its first commissioned research project was on the dairy-farming industry [Duncan, 1933]. However, most of the early writing on farm accounting was dominated by a concern for memorializing transactions through bookkeeping procedures and recommendations for producing summary reports [Spicer and Pegler, 1925; Malloch, 1933; Malloch and Weston, 1935; Fippard, 1948]. The NZSA also became involved in documenting SVA procedures and relating standard values to accounting theory, such as the capital-trading stock debate [Malloch and Weston, 1935; Fippard, 1948; Haisman, 1955]. However, by the 1960s, accountants had to provide a rationale for accounting for efficient farm management.

In 1966, the Farm Research Committee of the NZSA produced *Farm Accounting in New Zealand,* which highlighted the need for the accountant to provide management advice to the farmer and to see accounting as much more than tax reports. In fact, Minister of Agriculture B. Talboys wrote the foreword to the report and praised the accountants, Federated Farmers, producer boards, government departments, universities, stock and station agents, and banks for cooperating in the production of the report. He stated that all these groups had "worked with the common aim of encouraging increased economic farm production" [Farm Research Committee, 1966, p. vi].

In 1968, the NZSA published a paper boldly entitled "Accounting as an Aid to Efficient Agriculture." Livestock valuations became the lightning rod for the inadequacy of accounting as an aid to efficient farm management. Toomath [1973] and Glasgow [1975, p. 11] presented the case for current values in farm accounting, and consequently, considered that "it is essential that reports be freed from the straightjacket of tax standard values." Glasgow also pointed to the move to investor/owners from farmer/owners and the need for information on the stewardship and efficiency of management. This shifting rationale towards farm efficiency brought about the eventual disappearance of SVA. Fiscal expediency gave way to efficient farm management.

The official history of the NZSA portrays accountants as having a benign, neutral, cooperative attitude with government:

"Successive Minsters have paid tribute to the co-operation received from accountants, and the Society has established a record of public service combined with political impartiality which has been in every way worthy of the responsibilities entrusted to it by successive governments" [Graham, 1960, p. 73]. It is almost as if accountants unwittingly provided tax-avoidance techniques of SVA without seeing the sanctioning rationale their status provided. Higgins [2001, p. 315] noted that accounting techniques like SVA, although mundane accounting practices, are the way in "which authorities seek to embody and give effect to governmental ambitions…These represent effective strategies for stabilizing the objectives of authorities and their downstream power effects by embodying them into durable materials." SVA became political arithmetic, transforming the rationalities of government into a technical means of intervening in the life of farmers, making them knowable to authorities; yet, at the same time, providing them with preferential treatment [Higgins and Lockie, 2002].

The political economy of accounting examines accounting practices like SVA and the role such accounting practices have on the interaction between politics and economics, and particularly, the way these practices are implicated in social conflicts and wealth-distribution transfers in society. This study illustrates the relationship between an accounting practice and the macro-political and economic environment in which it operates [Arnold, 2009].

CONCLUSION

It was considered that the "lower of cost or market value" method for stock valuation was not appropriate for valuation of livestock. In 1929, New Zealand farmers (with the support of Federated Farmers, NZSA, and parliamentary representation) successfully lobbied for a fixed or standard value-per-head to be adopted from year-to-year to avoid taxation impacts of changing prices. SVA was not merely a routine, convenient accounting technique but rather an example of political arithmetic. Epstein and O'Halloran [1996] noted that special interest groups are more successful if they are aligned with the needs of a political party. In this study, we have identified the relative power of organized interests who sought to achieve a self-interested outcome. We used the term political arithmetic to highlight the reciprocity between the political rationalities of government intervention in the agriculture sector and the technology of an accounting method called SVA. Within the frame of political economy theo-

ry, we examined the appearance of SVA and the social, political, institutional, and economic context within which this tax-based methodology for valuing livestock was developed. In particular, we have highlighted the political-historical background which led to preferential income-tax treatment for the farming community and the interrelation between farmers, accounting, and the state in achieving this outcome.

SVA became a vehicle for examining state politics and economics [Miller and Rose, 1990]. SVA practices legitimized existing and shifting power relations and distributional transfers of wealth by cloaking them in the guise of a seemingly neutral accounting technique [Arnold, 2009].

Some studies [e.g., Hansen, 1990; Epstein and O'Halloran, 1996; Barney and Flesher, 2008] have examined the political economy of tariffs in the U.S. These studies, which described the influence and power of special interest groups, provided examples of preferential tax treatment for farmers and, similar to our study, identified the influence of politicians with agricultural backgrounds in achieving tax benefits for one sector of the economy. We observed that the position of power of farmers enabled the construction of a particular form of accounting. Farmer-politicians promoted themselves as more authentic representatives of New Zealand than were city candidates and accounted for up to 50% of members of Parliament during the period of the study. This influence of political power indicated the economic pre-eminence of farmers and brought about a change in accounting practice which favored the agriculture sector of the New Zealand economy. Thus, accounting practice reflected political manoeuvring in which power and influence was used to achieve a desired outcome [Skaerbaek and Melander, 2004].

As the operating environment of farmers changed, so did the nature of farming records. Simple accounting records of livestock purchases became necessarily more complicated with the introduction of income tax on farming profits, and accountants responded to the farmers' need for advice and instruction. By default, their status lent credibility to tax minimization schemes for farmers and financial records that had little relationship with commercial reality.

The disappearance of standard values occurred as accounting was called upon to create a new political arithmetic (MVA) around the rationality of efficient farm management. Farming's transformation can be traced through the nomenclature of livestock accounting – in dairy farming accounts, cows went from "Queenie," "Mollie," and "Hazel" to "livestock at standard

value," to "biological assets" as of 2004 [NZIAS 41]. This changing nomenclature reflects the changing government rationales and interventions in the agricultural sector through the various narratives around the accounting technique of standard values for livestock.

Potter [2005] called for more studies that depict accounting as a social and institutional practice in order to enhance understanding of the determinants of change. There are opportunities for further research into how accounting techniques are initially constituted, supported, and become embedded, and the consequences of applying particular accounting practices over time. The impact of special interest groups on other areas of tax reform is another area for further study. Studies of this nature increase our understanding of the processes through which accounting can change.

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